

CollegeCounts Investment Committee Meeting
September 30, 2014
Minutes

Committee Members Present:

Chair Young Boozer

Mr. Chess Bedsole

Mr. Dennis Beavers

Mr. Daniel Hughes (by phone)

Others in attendance:

Mr. Jay Steinacher (by phone), Union Bank and Trust

Ms. Daria Story, Assistant State Treasurer

Ms. Glenda Allred, Deputy State Treasurer

Ms. Anita Kelley, Program Director

Pursuant to public notice, a meeting of the CollegeCounts Investment Committee was held on September 30, 2014.

Agenda Item 1.

The meeting was called to order by Chair Young Boozer at 1:05 p.m.

Agenda Item 2.

Roll was taken with a quorum present.

Agenda Item 3.A.

Chair Boozer stated that he had talked with Pension Consulting Alliance (PCA) on Friday 9/26/14 regarding Bill Gross leaving the PIMCO Total Return Fund and what options existed. PCA prepared a memorandum dated 9/26/14 to CollegeCounts stating that they recommended immediate exit from the fund. Mr. Boozer stated that he had asked Jay Steinacher to refer the matter to Wilshire to obtain its recommendation as well.

Agenda Item 3.B.

Chair Boozer then asked Mr. Steinacher to discuss Wilshire's recommendation with the investment committee. Mr. Steinacher communicated that Wilshire had a private call with Jay Jacobs, president of PIMCO, to discuss the changes at the CIO level with Bill Gross' departure. He said that Wilshire is still working on their final formal written agreement but they did give a verbal recommendation and that several alternatives were analyzed. Wilshire mentioned

concerns regarding the culture of the firm going forward, the impact on personnel, the impact of a team based approach, and potential significant outflows. One of the options was to hold and assess over the next six to eighteen months to see how the new team, processes and approach are working. He stated that this is a relatively long time frame, creates some exposure and creates a risk of additional substantial outflows affecting performance. He stated that because of these reasons, Wilshire believes there are better products with proven results. Mr. Steinacher said they briefly discussed liquidating only a portion of the portfolio but that this was not recommended. Wilshire recommended liquidating the full amount of the PIMCO Total Return Fund and reinvesting the proceeds into the existing Barclays aggregate index funds. PIMCO Total Return is only available in the individual fund portfolios in the Direct Program, and these monies would be invested in the Vanguard Total Bond Market Index Fund. As for the Advisor plan, the age based portfolios, the target portfolios and the individual fund portfolios would be liquidated and reinvested into the existing Northern Bond Index. He stated that late this week or the beginning of next week Wilshire will deliver a written document with their formal recommendation. Mr. Steinacher advised that the second step of this action would then be to analyze the potential for reinvesting a portion of the funds back into actively managed accounts.

Mr. Hughes, by way of phone, asked when the funds would be liquidated, and what value would be received. Mr. Steinacher replied that they would likely be liquidated 10/1, but not later than 10/2/2014. The value upon exiting the fund would be at NAV. He provided the NAV for the past four business days. PIMCO states that it has the capacity to meet its normal weekly outflow of \$10 billion so no additional costs are expected.

Chair Boozer then asked Mr. Steinacher how the notification to investors would be handled. Mr. Steinacher said that by 10/1/14 a letter to the advisors and the investors would be sent to the Treasurer's office for approval. Once approved, the letters would be distributed immediately. The communication would also be added to the website.

Agenda Item 4.A.

A motion was made by Mr. Beavers to accept the recommendations of PCA and Wilshire to exit the PIMCO Total Return Fund immediately and reinvest those funds into the Vanguard Total Bond Market Index Fund for the Direct Plan and into the Northern Bond Index for the Advisor Plan. The motion was seconded by Mr. Bedsole, and approved unanimously.

Agenda Item 4.B.

A motion to liquidate the PIMCO Total Return Fund in the CollegeCounts Scholarship account immediately and reinvest those funds into the Vanguard Total Bond Market Index Fund was made by Mr. Bedsole, seconded by Mr. Beavers and approved unanimously.

There being no further business, a motion to adjourn was made by Mr. Beavers, seconded by Mr. Bedsole with unanimous approval. The meeting adjourned at 1:22 p.m.

All detailed reports were received for information and are attached for reference.

Anita Kelley, Recording Secretary

Young Boozer, Chair